



IMPROVING INVESTMENT ACTIVITIES THROUGH ISLAMIC BANKS

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Annotation

This article discusses the theoretical and legal framework for financing investment activities through Islamic banks, the organizational system, as well as individual approaches to improving the theoretical basis for the implementation of Islamic banking instruments in our country.

Keywords: Islamic finance, Islamic finance, investment, investment activity, interest, financing, Islamic banks

1. Introduction

In the process of developing our national economy, many still do not understand the difference between the products and services offered by Islamic and traditional banks. Some believe that Islamic banks are a renamed form of traditional banking products and services, while others assume that Islamic banks traditionally call “interest” “income” and use Arabic terms to mislead people. It is impossible to come to such conclusions without knowing how an Islamic bank works. Because such conclusions and claims hinder the development of Islamic banking. Of course, today Islamic banking and some of its products face various problems in the development process. Because this area has not yet been fully explored. There is no denying that errors will occur during this process. But such mistakes and shortcomings do not mean that Islamic banking is invalid. To do this, of course, it is necessary to look at the national banking system in a new way, that is, to develop scientific proposals and practical recommendations on the introduction of traditional financing mechanisms, as well as mechanisms for financing investment activities through Islamic banks.

1. Analysis of the Relevant Literature

Today, as a result of the global crisis of the economic system related to the financing of investment activities, the attention of the investment community to Islamic forms of financing has increased significantly.

Economists Ishmukhamedov and Zaripov have written in their scientific articles that Islamic finance is developing steadily and at a high rate in the world today,



and that a new term called "capital efficiency" has been introduced in Islamic finance instead of the traditional concept of "money price"¹.

Ibrahim and Minai have studied the importance of sukuk in attracting investment to businesses. The results show that it is advisable for enterprises with smaller and higher investment potential to issue sukuk. The government's support for the sukuk market also has a positive impact².

Juravlev noted that by creating a legal framework, traditional and Islamic financial institutions can operate in the same legal field, in which case two separate laws could apply to regulate them³.

At the same time, there are different views on the introduction of financing through Islamic banks. In particular, Ibrahim Varde classifies Islamic financial products based on a set of legal, financial, economic and political relations arising from the use of these instruments⁴.

It should be noted that in the process of studying the analysis of the relevant literature by economists, the issues of financing through Islamic banks have been considered in different interpretations.

The authors did not pay enough attention to the process of financing investment activities through Islamic banks in the implementation of these factors.

3. Research Methodology

The research methodology used methods of financing investment activities through Islamic banks and a comparative analysis of the possibilities of Uzbekistan and the justification of the hypothesis. In the introduction of Islamic banking, a systematic approach was used to integrate economic phenomena and processes. Logical analysis and generalization methods were used to draw conclusions from the data.

4. Analysis and Discussion of Results

The emergence of the Islamic banking system in Egypt in the 1960s was not a universal event, but the system has been developing steadily for more than half a century. In recent years, the concept of the Islamic financial system has taken a firm place in the vocabulary of financiers in many countries. Indeed, in various

¹ / Zaripov I.A. (2016) Islamic finance as a strategic landmark for the development of Russia. <https://cyberleninka.ru/>.

² Ibrahim, Y., & Minai, M. S. (2009). Islamic bonds and the wealth effects: evidence from Malaysia. *Investment Management and Financial Innovations*, 6(1), pp. 184–191

³ Zhuravlev A.Yu. (2017) Islamic banking. M. "Sadra". 129 p.

⁴ Ibrahim Warde. *Islamic Finance in the Global Economy* / Ibrahim Warde. 2010. – P. 52



countries, even in countries where the majority of the population is not Muslim, including the United States and the United Kingdom, this financial institution is developing steadily as an alternative financing system to traditional banking services. Therefore, the study of Islamic banking is a topical issue in the global economy. The availability of alternative forms of financing to the traditional banking system serves as an important basis for the development of competitiveness.

The main difference between Islamic finance and traditional financing is that Islamic finance involves profit and loss sharing as well as real asset-based financing. In other words, Islamic finance is based on partnership, cooperation. In this case, Islamic banks can build the facility, purchase equipment, goods, raw materials or lease them at the request of the customer. Funding is based on trade practices. Money is seen as a medium of exchange, i.e. it is forbidden to lend money itself as interest or as a loan in exchange for any benefit / benefit.

The Islamic Development Bank Group includes a number of organizations, including the Islamic Corporation for the Development of the Private Sector (ICPD) and the International Islamic Trade and Finance Corporation (IFCC), which work with Uzbek banks. By the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 596 of December 21, 2004, Uzbekistan became a member of the USSR and since 2006 has been cooperating with local commercial banks and entrepreneurs. In particular, financing lines have been allocated to commercial banks through the Murobaha (premium sales) financing method. These lines are used by entrepreneurs operating in Uzbekistan, enterprises operating in manufacturing, services, processing and other sectors of the economy to further develop their activities.

To date, XSRIK has established cooperation with 15 commercial banks and 2 leasing companies, and to date it has been approved to allocate \$ 285 million in financing lines to banks.

In addition, HISMC provides entrepreneurs with short-term (1-year repayable) trade finance lines in partnership with several local banks. In this case, the Murobaha method of financing is used mainly for the purchase of raw materials and equipment. The value of the projects approved by the ICRC was \$ 82 million⁵. The Islamic bank's mudaraba (investment) deposit is a distribution of profits between partners and is a clear example of social justice-based cooperation in

⁵ <https://xs.uz/uzkr/post/ozbekistonda-islomij-moliya-va-bankchilikka-bolgan-qiziqish-qandaj-ekspert-fikri>



financial relations. It is this principle that serves as an incentive for the population to invest in and benefit from Islamic banks, any project. In addition, based on the financing mechanisms of Islamic banks, it should be noted that the segment of the population in need of financing also has the funds, and the party seeking to benefit from it is equally interested.

Today, the Private Joint-Stock Bank "Trustbank" is strengthening direct cooperation with international and foreign financial institutions.

The Bank approved the Decree of the President of the Republic of Uzbekistan dated December 17, 2017 "On measures to further enhance the effectiveness of cooperation with international and foreign financial institutions" and the Cabinet of Ministers of May 23, 2019 "On measures to further develop cooperation with the Islamic Development Bank and the Arab Coordination Group signed an agreement with the ITFC (a subsidiary of the Islamic Development Bank) on the allocation of a line of financing in the amount of \$ 8 million to finance trade.

The main purpose of the agreement is to develop small business and private entrepreneurship in the Republic of Uzbekistan by financing the purchase of raw materials, the purchase of modern technological equipment and other fixed assets. Under the terms of the agreement, the projects submitted must be in accordance with Sharia law. The purpose of this line, allocated by the ITFC, is to support trade operations valid for up to one year.

On November 12, 2018, ITFC transferred \$ 4 million to Trustbank Private Joint-Stock Bank. Had set aside a line of trade finance in the amount of USD. Today, these funds are fully utilized.

ITFC is part of the Islamic Development Bank (ISDB). This organization was established to promote trade between the member states of the Organization of Islamic Cooperation (OIC).

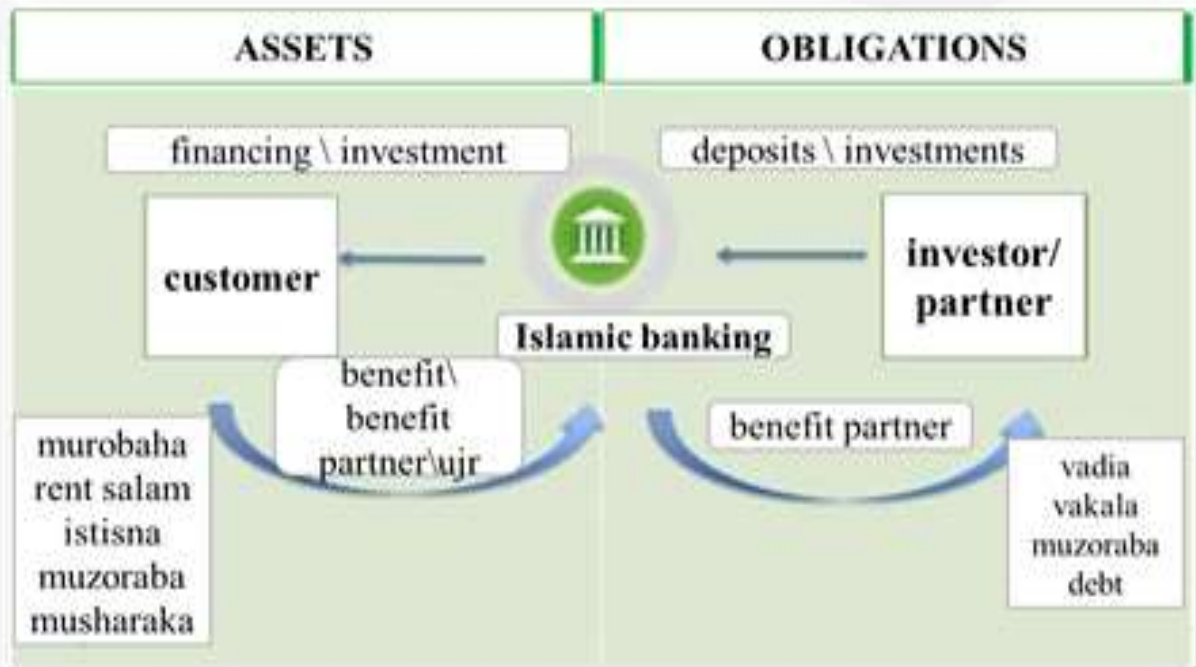
Uzbekistan is a full member of the ITFC from 2019. ITFC started its operations in Uzbekistan in 2018 by cooperating with several local banks, or rather by supporting small and medium-sized businesses to meet their trade finance needs. Today, the bank has a total of \$ 30 million in financing lines in partnership with Aloqabank, Asia Alliance Bank and Turonbank. HISMK has provided a total of \$ 32 million in financing lines to Asia Alliance Bank, Kapitalbank, Uzpromstroybank and Trustbank, and \$ 50 million to a fund under the Ministry of Finance. U.S. dollars are allocated⁶.

⁶ <https://review.uz/oz/post/zbekistonda-islomiy-moliya-va-bankchilikka-blgan-iziish-ortib-bormoda>

In general, Islamic banks cover the process of lending or financing based on the principles and rules of Sharia, and enter into transactions in accordance with the principles of Islamic finance. At the same time, Islamic finance is different from traditional financing or lending. Also, the attraction of funds in Islamic banking is carried out on the basis of partnership, loan or deposit (deposit) agreements in accordance with the principles of Sharia. In traditional banking, funds are attracted for a guaranteed interest rate.

The use of funds raised in Islamic banking is also fundamentally different from traditional banking. Funds can be made on the basis of Islamic finance principles, on the basis of sale, lease / lease or partnership or on the basis of financing / investment agreements.

The following figure shows exactly how Islamic banking differs from traditional banking⁷:

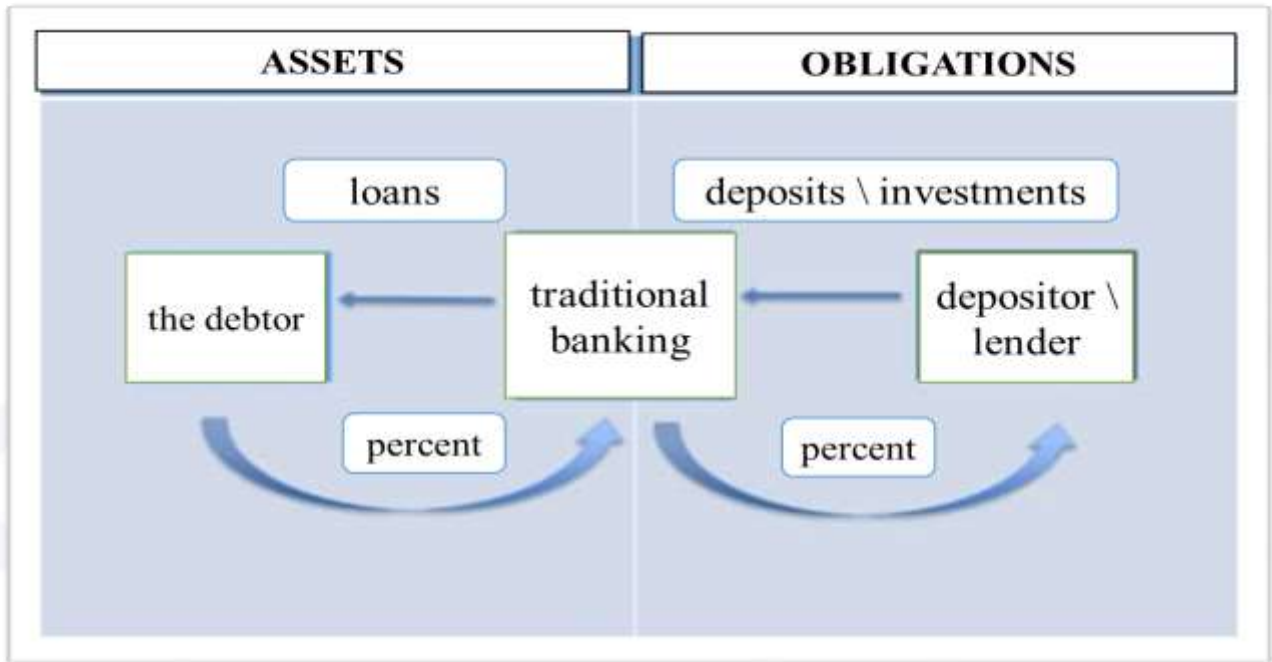


The Islamic Development Bank (IDB) was established on December 18, 1973 at a meeting of finance ministers of the Organization of the Islamic Conference (OIC) and began its activities in October 1975.

The IDB is headquartered in Jeddah, Saudi Arabia. At the same time, the bank's Rabot (Morocco), Kuala Lumpur (Malaysia), Alma-Ata (Kazakhstan), Dakar (Senegal), Paramaribo (Suriname), Bandung (Indonesia), Dhaka (Bangladesh),

⁷ <https://islommoliyasi.uz/uz/islom-darchalari-ananaviy-banking-uchun-yangi-imkoniyat/>

Ankara (Turkey), Kampala (It has 13 offices and 11 regional centers in cities such as Uganda), Cairo (Egypt), and Abuja (Nigeria).



As can be seen from the picture above, the attraction of funds in Islamic banking is carried out on the basis of partnership, loan or deposit (deposit) agreements in accordance with the principles of Sharia. In traditional banking, funds are attracted for a guaranteed interest rate.

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5. Conclusions and Suggestions

In conclusion, it should be noted that Islamic finance is usually used only for production purposes (the bank participates as a partner or trust fund); the bank and the client share the benefits and harms of the project as agreed and make a concerted effort to achieve the benefits of the project. It should be noted here that Islamic banks generally prefer relatively low-risk instruments with stable returns.

One of the main criteria for introducing financing of investment activities through Islamic banks in Uzbekistan is the Central Bank of the Republic of Uzbekistan, amendments and additions to the laws on banks and banking, tax and civil codes



and other by-laws or the adoption of a separate law. It is also important to increase the literacy of the population in this regard, as people who do not have sufficient knowledge of Islamic finance will not understand the difference between it and traditional financing or will be misinterpreted.

In our opinion, the implementation of the above proposals will allow further development of financing of investment activities in the Republic of Uzbekistan through Islamic banks.

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